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GENERAL FARM COMMODITIES AND RISK MANAGEMENT TESTIMONY

Presented to:

**U.S. House Subcommittee on General Farm Commodities and Risk Management
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By:

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Introduction

On behalf of the National Grain Sorghum Producers, I would like to thank the Chairman of the Subcommittee on General Farm Commodities and Risk Management for holding the hearing and allowing us the opportunity to discuss USDA's implementation of the farm bill and its impact on the sorghum industry.

My name is James Vordestrasse, President of NGSP, and I farm almost 1600 acres near Hebron, Nebraska, raising 450 acres of sorghum, 400 acres of soybeans, and 275 acres of wheat; my remaining acres are grazed, set aside within the Conservation Reserve Program, and planted to alfalfa.

NGSP represents U.S. sorghum producers nationwide. Our organization is headquartered in Lubbock, Texas, and our major responsibility is to increase the profitability of sorghum producers through market development, research, education, and legislative representation. NGSP members in the states you represent thank the committee members for equalizing the sorghum loan rate with corn's loan rate in the 2002 farm bill.

NGSP is committed to work with the Committee and its staff to ensure that the effort started in the Farm Security and Rural Investment Act of 2002 in support of modernizing the sorghum farm programs continues. USDA needs to change its present interpretation of the farm bill to recognize that sorghum is a much more dynamic crop than it was ten or even five years ago. NGSP feels that the USDA is basing current decisions on old, out-dated data, which has a negatively impact on the program benefits that our producers rely on to ensure that sorghum is used in a profitable cropping system.

A Brief Description of Sorghum

I would like to give you a brief history of sorghum and outline for you some of the unique opportunities that we have in sorghum. Sorghum originated in Africa some 8000 years ago and continues to be a staple in the diet of many Africans. Benjamin Franklin first introduced sorghum to the United States in 1725 when he brought back "broomcorn" from Europe. In the 1850s, the U.S. government began introducing various forage and grain varieties from Africa and China.

Sorghum is known as a "water-sipping" crop. According to research conducted at the Bushland, Texas, USDA-ARS Center, sorghum uses approximately 1/3 less water than corn and soybeans and 15% less water than wheat. It is a crop that is adapted to semi-arid agricultural regions; that is, a region that may receive less than 20 inches of rain a year. Corn and soybeans, on the other hand, are primarily grown in areas that receive approximately 30-40 inches of rain a year. Corn and soybeans raised in the sorghum belt need to be irrigated to produce yields typical of the corn and soybean belt. Because of its excellent drought tolerance and varied uses, sorghum is a very viable option for farmers in the semi-arid Plains states.

This versatile crop is used both in human food systems, as an industrial starch source and as an animal feed. It is currently a non-GMO crop, though NGSP supports work on moving new technologies into the crop. In the last year, non-genetically altered status



has provided our producers with unique export market opportunities. Industrially, sorghum, like corn, is valued for its starch content. A prime example of this is the ethanol industry, which can use both corn and sorghum interchangeably in ethanol production. Its co-product, distiller's grain, is a valuable and widely accepted feed for both cattle feeders and dairies.

Worldwide, approximately 50 percent of total production of grain sorghum is consumed directly as human food. USAID has told NGSP that it would like to double the amount of sorghum programmed for its food aid programs. The African countries of Ethiopia, Sudan, and Eritrea that have used sorghum as a staple in their diets for thousands of years have been listed by the World Food Program of the United Nations as nations requiring Emergency Operations for food because of drought and famine.

Industry Overview

The U.S. grain sorghum belt is made up of primarily nine states in the Great Plains, although grain sorghum is grown from California to New Jersey. Sorghum is produced in many of the states that you represent, including Kansas, Oklahoma, Tennessee, Mississippi, Missouri, Georgia, Texas, Louisiana, Arkansas, and California. Over the past ten years, grain sorghum has ranged from a high of 13.1 million acres in 1996 to a low of 9.3 million acres planted in 2000 with an average of 10.0 million acres planted annually. Production from the last 10 years has ranged from 360 million bushels to 795 million bushels, with an approximate value of \$1.1 billion annually. In addition, sorghum utilized as silage, hay and grazing represents another 5 million acres of production. The USDA reported that in 2003, 343,000 acres of sorghum was planted for silage, producing approximately 3.5 million tons.

The US is the world's chief producer and exporter of grain sorghum, and the crop ranks fifth in importance as a U.S. crop behind corn, cotton, soybeans and wheat. Roughly 45% of the crop is exported. Of the 55% of the crop that is not exported, 42% goes into pork, cattle and poultry feed, 9% goes into ethanol production; 3% goes into industrial use; and 1% goes into the food chain. Ethanol is our fastest growing domestic market with a 57% increase in use of grain over the past two years with this trend continuing as new plants come on line in 2004 and 2005.

In addition, the U.S. dominates world seed production in sorghum, with a billion-dollar seed industry focused on 250,000 acres primarily in the Texas Panhandle that exports seed around the world.

As you can see this is a not only a unique, drought-tolerant crop, but it is a vital component to cropping systems for many US farmers, and we continue to work with USDA to strengthen the support for the crop.

Farm Bill Policy

NGSP believes that the farm bill is working for producers and we would encourage the committee not to make any significant policy changes at this time. The Counter-Cyclical program is working as intended, providing financial support to farmers in times of low



prices. New Congressional Budget Office figures recently released to the press show that farm bill spending is down \$5 billion for this year and in 2005. We hope that lower spending on farm programs will be considered by Congress as it works to balance its budget.

NGSP would like to compliment the USDA on implementing the Farm Security and Rural Investment Act of 2002. In particular, NGSP commends USDA for getting information on the new farm bill out to farmers in a timely manner, so producers could begin to understand the impact of the new farm program on their operations, despite the fact that the farm bill was passed so close to planting season. The NGSP Board also wants to compliment USDA on their effort in providing payments to farmers in a timely manner.

NSGP would like to compliment the Committee on its work in past farm bills in which planting decisions were based on market conditions and on the conservation needs of our individual producers.

Today, we have some particular concerns that we would like to share with the committee in our effort to strengthen support for sorghum. NGSP supports correcting inequities in programs that would genuinely give producers the freedom to produce any crops that fit their market plans and conservation needs, rather than basing those decisions on a particular aspect of the farm program. **Of utmost importance to NGSP, we ask the committee to encourage USDA to follow Congress' lead and review and change outdated programs that affect sorghum producers. Some programs that are in need of review and change are county loan rates, risk management programs like Crop Revenue Coverage and the recently announced pilot sorghum silage and conservation programs that are a part of the 2002 Farm Bill.**

Sorghum's Market Has Changed

There have been significant changes in sorghum's markets and those changes must be reflected in programs that affect sorghum production.

This new relationship is best illustrated by the new sorghum and corn price relationship. According to USDA's April *World Agriculture Supply and Demand Estimates (WASDE)*: 2004, sorghum and corn prices are expected to be equal, ranging from \$2.45 to \$2.65. WASDE's estimate for the 2000/2001 crop price placed sorghum at 102% the price of corn, or \$1.89 per bushel for sorghum versus \$1.85 for corn. This past December, WASDE numbers showed that for the crop year 2001/2002 sorghum's price was 98.5% of the price of corn; in the 2002/2003 crop year it was 100% of corn's price. Mr. Chairman, as you can see, USDA's own numbers support updating programs to reflect these changes in support of sorghum producers.

NGSP continues to work with USDA to address issues related to data collection, and to shorten data timelines used in implementing USDA programs as part of new congressional law. NGSP is concerned that over the last several years NASS data collection has not adequately documented the new buyers of sorghum in the sorghum belt



and shown the increased prices paid for sorghum. Additionally, the use of twenty year timelines to implement policy while potentially relevant for larger commodities with more stable or predictable production trends is not fair for sorghum. The sorghum industry today produces on average less than half the sorghum that we did twenty years ago. Not even taking into consideration new, high value markets in ethanol and pet food, the simple production difference makes the supply and demand economics of twenty years ago totally irrelevant to today. However, as new programs are approved by congress and implemented by USDA the sorghum industry continues to receive less support than Congress intended because of the “one size fits all” process that USDA uses to establish programs.

Why Has the Market Changed?

One major driving force in bringing sorghum prices equal to or in many cases greater than, corn has been the demand for sorghum in ethanol production. Ethanol holds tremendous promise as a fuel alternative and is quickly becoming the single largest user of grain sorghum in the U.S. In areas where sorghum is grown and an ethanol plant has been built, the price farmers are paid for sorghum is at least equal to the price paid for corn. Ethanol plants are adding up to 15 cents a bushel to the locally paid price for sorghum. These plants pay the same price for sorghum since a bushel of sorghum produces the same amount of ethanol as a bushel of corn.

Further, sorghum distiller's grain, a co-product of ethanol production, is higher in protein than corn distiller's grain, while corn distiller's grain is higher in fat content. Ethanol plants routinely mix starch source in their processing and a greater understanding of how corn and sorghum compliment each other is an important question being addressed by research. The use of sorghum distiller's grain has tremendous potential in this rapidly expanding feed market.

Five years ago, three times as much sorghum was fed to cattle as was processed through an ethanol plant; now, the same amount of sorghum is processed into ethanol as fed to cattle. This is just one example of how the market for sorghum is changing and why USDA programs need to reflect those changes.

Water Conservation

NGSP applauds the Committee for giving serious consideration to the future of water supplies in the semi-arid regions of the Plains -- a region highly dependent upon sorghum -- by creating the Ground and Surface Water Conservation Program in the farm bill. We would encourage USDA to consider similar water conservation policies and concerns in programs like the Conservation Security Program. As we will soon discuss, a significant amount of water can be saved by switching from higher water use crops to irrigated sorghum in the sorghum belt.

NGSP's members are telling the staff that they are becoming increasingly concerned about the growing conflict between agriculture and non-agriculture competition for water. As you are aware, water is becoming an extremely valuable commodity, and its use is becoming very political, especially in regions like the western Plains. Currently the



sorghum belt relies on the Ogallala Aquifer for much of its water. Agriculture uses approximately 95% of this water. Towns and cities within this region have aggressive education programs, and in some cases, laws that are forcing homeowners and businesses to limit water use. However, there is little or no incentive for producers that are using 95% of the water to limit water usage under today's farm and conservation programs. We ask that the committee keep this growing conflict in mind during this and future discussions on farm policy.

We believe that the best way to conserve water is to lower the amount of water used within an agricultural system, not by improving irrigation efficiencies. Unfortunately, concentrating on only improving irrigation technologies and efficiencies like has been done with the EQIP program does not necessarily translate into less water usage. In some cases, this policy has increased water usage, which is contrary to many of the goals of the program. By the same token, programs that would simply set water aside like the CRP program did land will hurt rural economies as well. If you look at the counties in the US that are dependent upon agriculture for economic stability and if you look at the outflow migration studies of counties in the United States you will see that they both match up very well with the sorghum belt. It is critical that USDA use every option available to bring both conservation program dollars like CSP and rural economic development dollars to this area to protect the future.

NGSP has encouraged NRCS to administer this program to encourage farmers to convert to crops that are best suited to limited water needs and that are more adapted to the semi-arid growing conditions of the area. As an example of the impact that a water saving or conserving policy could have on a region, we would like to share with the Committee research that has been published concerning the Texas Panhandle. A Regional Water Plan prepared for the Texas Panhandle Water Planning Group in Amarillo, Texas, has found that the water savings over 50 years for over 21 counties in the Texas Panhandle would amount to 7,360,000 acre-feet of water simply by converting those acres to more water efficient crops, like sorghum.

An acre-foot of water equals 326,700 gallons, roughly enough to supply two, four-person homes with water for a year. On average, water saved over fifty years in these 21 Texas Panhandle counties alone could amount to 147,200 acre-feet per year, which could supply water to 294,400 four-person homes. For reference, the city of Austin, Texas, has 276,842 housing units and a population of 642,994 people, according to the most recent U.S. Census. More than half the households of Austin could benefit from this water savings.

If we broaden the scope of these water savings, the economic impact of converting these areas from higher water use crops to grain sorghum could be astounding when looking at total irrigated plantings in Kansas, Nebraska, Oklahoma and Texas combined.

NGSP is concerned that the Conservation Security Program, as currently written, does not take advantage of significant water savings that sorghum can provide. We ask that as the Committee works on the Conservation Security Program to keep it mind that the



program can play a valuable role in determining water quantity, as well as water quality. NGSP believes water quantity should be a priority for this, and future conservation programs. Sorghum is in the unique position of being a crop, which lowers overall water use, while providing farmers with an income stream. Quality does not matter if there is no water!

Farm Program Changes

We strongly support a program that encourages the planting of crops based on sound agronomic, market and environmental reasons. In order to promote the production of agronomically appropriate crops, the USDA needs to modify its loan rate, and risk management programs so that these crops are not placed at a disadvantage when compared to other, typically larger acreage crops.

On the county level, USDA loan rates are not equal with corn. For example, our past NGSP president's loan rate in Oklahoma is 17 cents less than corn. My loan rate for sorghum in Nebraska is 8 cent less than corn. Many of the NGSP board members have been surprised that their loan rates are not equal in their home county. In many of these areas, the price farmers are paid for sorghum is equal to or higher than corn. While the farm bill equalized the loan rate between corn and sorghum, on the local level, huge differences still exist between the two loan rates. In fact, producers are puzzled with USDA's action since they are receiving a higher price for sorghum than corn.

Risk Management Programs

Further, Risk Management government program benefits play a role in farmer's decision to raise high water using crops in the semi-arid sorghum belt. For example, inaccurate crop insurance yields and rates have provided benefits that encouraged the planting of other crops in areas traditionally known for water stress and where sorghum had been the first choice of planting for many years. A prime example of this is Western Kansas, which has had serious drought for the last 5 years, and yet irrigated sorghum acres have continued to drop, while insurance claims have reached record levels. Since 1985, Western Kansas has lost 665,000 planted acres of irrigated sorghum (as reported by USDA). Sorghum does not have tools like Revenue Assurance which are available on other crops.

As a result, Lending institutions are encouraging farmers to plant crops that provide higher insurance protection levels than crops that make more agronomic sense for that area. NGSP asked RMA to update its price elections after the farm bill was implemented by USDA. In a resolution adopted on October 29, 2003, The Federal Crop Insurance Board agreed to change the CRC grain sorghum price to better reflect the current year's estimates of expected year prices. From their October 29, 2003 meeting they stated:

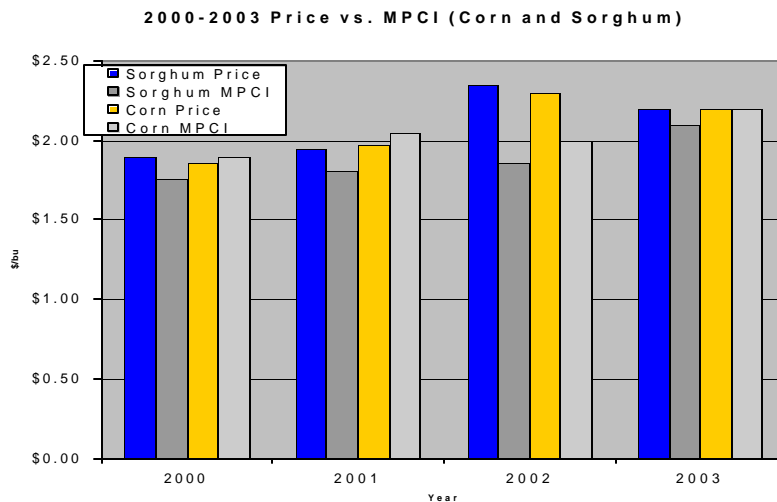
‘RESOLVED, That Docket No. CI-CRC Grain Sorghum Base-Harvest Price-03-01, Exhibit No. 2208, authorizing modifications to the methodology used in determining the Crop Revenue Coverage Grain Sorghum Base and Harvest Prices to establish the grain sorghum price, by establishing a price relationship between grain sorghum and corn based on the January USDA



estimate of the grain sorghum and corn prices and multiplying this ratio by the Chicago Board of Trade corn price under the Commodity Exchange Endorsement, beginning with the 2004 crop year AND BE IT FURTHER RESOLVED, that the Board delegates to the Manager the authority to make such technical policy changes as are necessary to make the policy legally sufficient.”

RMA told NGSP that it based the price election for sorghum CRC coverage on the WASDE January price forecast, which was predicted to be 105% of the price of corn (sorghum's price range was \$2.20 to 2.50, as compared to corn's price range of \$2.15 to \$2.45) and loan rates. Since the farm bill equalized the loan rate with corn, and WASDE predicted that sorghum's price would be higher than corn's, NGSP expected that the Federal Crop Insurance Board would at least equalize the CRC price election with the corn price election. On January 23, 2004, RMA announced that it would set the CRC price election for sorghum at 96% the price of corn, despite the fact that Congress had equalized the loan rate with corn and USDA's own numbers showed that sorghum was priced above or equal to corn.

While NGSP agrees with USDA that equal crop insurance programs do not impact planting intentions, our members tell us that some financial institutions in fact encourage producers to plant crops with higher levels of coverage or more insurance product options, which means planting a crop other than sorghum. Therefore, it is imperative that RMA keep fair and equitable product availability and program benefits so that there are not certain crops that win at the expense of others.



The graph above demonstrates that MPCl coverage for sorghum is less than coverage for corn. Sorghum farmers are confused and frustrated when they are paid a price equal to corn or, in some cases, a premium at the point of sale and then are told by USDA that sorghum cannot be insured at the price level they are paid.

Seven years after the program was proposed, RMA announced the sorghum silage pilot project for Kansas. It set the price of sorghum silage at 80% of the feeding value of corn



silage, despite the fact that research published by the University of Nebraska indicated that the main sorghum variety planted for sorghum silage was equal to the feeding value of corn silage. While we applaud the new product, we question the fairness of the price election. Again, Mr. Chairman, inequities such as these hurt the ability of our farmers to plant sorghum silage in areas typically and rightly thought of as traditional sorghum regions because they are uniquely appropriate for sorghum production.

Conclusion

The combined effect of all of these inequities has been the erosion of sorghum acres in the sorghum belt. Since 1985, sorghum acreage has dropped by 9 million acres; 4 million of those acres were enrolled in the Conservation Reserve Program, with the other 5 million acres going into higher water use crop production.

While not all of the acreage losses can be attributed to farm programs, government policy has played a significant role in the decline of sorghum acres. NGSP is concerned that crops like grain sorghum are not being rewarded for being a low-risk and low water use cropping alternative. Policy traditionally has favored higher gross revenue and riskier crops over sorghum, which is more suited to the semi-arid agricultural regions and cost the government less money. Without corrections to key Farm Bill programs to better reflect the water reality in the country, sorghum is at risk of losing the critical research and support infrastructure it needs to become a more vital part of a sustainable, profitable cropping system that benefits our producers and provides them with choices and also promise benefits in the US and World fuel and food industries.

We would like to thank you and the members of this subcommittee for the opportunity you have given us to present the organization's review of the Farm Security and Rural Investment Act of 2002. NGSP is a strong supporter of this farm bill and appreciates the committee's support.